

**Business momentum picking up; Strong provision buffer provides comfort**

**CMP: INR 1,143**

**Rating: Accumulate**

**Target Price: INR 1,322**

**Stock Info**

BSE	532187
NSE	IIB
Bloomberg	IIB IN
Reuters	INBK.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	773
Mkt Cap (INR Cr)	88,393
52w H/L (INR)	1,240 / 571
Avg Yearly Vol (in 000')	8,777

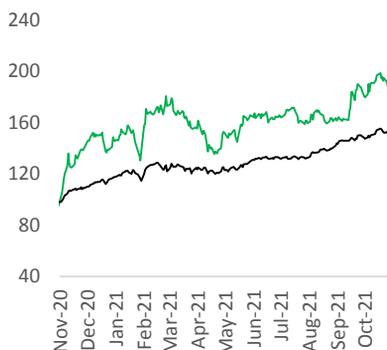
**Shareholding Pattern %**

(As on September, 2021)

Promoters	16.5
FII	51.4
DII	19.0
Public & Others	13.1

Stock Performance (%)	3m	YTD	12m
IndusInd Bank	17.1	27.7	86.1
Nifty 50	15.7	24.3	53.2

**IndusInd Bank Vs Nifty**



**Raju Barnawal**

[raju.b@arihantcapital.com](mailto:raju.b@arihantcapital.com)

022 67114870

IndusInd Bank (IIB) has reported decent performance during Q2FY22 with strong profit growth of 72% YoY to INR 1,114 cr vs. our estimate of INR 1,102 cr. Profit growth for the quarter was higher due to 13% YoY/8% QoQ decline in provisions. With the pick in business momentum and opening up of economy, loan growth of the bank has picked up. Advances of the bank increased by 10% YoY as compared to 6% YoY growth in the previous quarter led by strong growth in Corporate portfolio. NII for the quarter grew by 12% YoY/3% QoQ to INR 3,658 cr was marginally ahead of our estimate of INR 3,658 cr. Operating profit of the bank increased by 12% YoY/1% QoQ to INR 3,174 cr vs our estimate of INR 3,101 cr. Contingent provision of the bank has increased from INR 2,050 cr (1% of loans) to INR 3,178 cr (1.4% of loans) as bank has prudently provided for its telecom exposure. Total loan related provision of the bank increased from 3.6% to 3.9% of total loans. Headline NPA ratio of the bank improved with GNPA/NNPA improvement of 11bps/4bps QoQ at 2.8%/0.8%. Restructuring pool has increased from 2.7% to 3.6% of loans on sequential basis.

**Loan growth improved driven by Corporate portfolio:** IIB's loan book grew by 10% YoY/5% QoQ (vs. 6% YoY growth in Q1FY22) driven by corporate credit growth of 16% YoY/7% QoQ. Corporate credit growth was higher as management had mentioned in the last quarter that realignment and sell-down objectives has largely been achieved. So, will see a good growth ahead. Retail portfolio of the bank has increased by 5% YoY/3% QoQ. Retail loan growth was largely driven by Tractor portfolio, Card business, MFI and other secured retail loan. CV book of the bank declined further by 6% YoY owing to higher rundown due to contractual maturity and focused collections. Liability profile of the bank continued to witness a strong traction with total deposit growth at 21% YoY/3% QoQ, driven by CASA deposit growth of 26% YoY. CASA ratio of the bank stood flat QoQ at 42%. NIM of the bank stood flat at 4.1%. Cost of funds of the bank improved by 18bps QoQ at 4.96% due to cut in deposits rates while yield on advances declined by 12bps QoQ at 11.6%.

**Asset quality improved; Strong provision buffer provides comfort:** Slippages of the bank remained elevated at INR 2,658 cr vs. INR 2,762 cr QoQ. Out of the total INR 2,658 cr slippages, INR 252 cr was from Corporate and INR 2,406 cr was from Retail portfolio. Recoveries /upgrades for the quarter was strong at INR 2,165 cr vs. INR 1,434 cr QoQ. Hence, Slippage ratio net of upgrades and recoveries stood at 0.9% vs. 2.5% QoQ. Collection efficiency of the bank has improved to ~98% in Sep'21 vs. 96% in Jun'21. SMA1 and SMA2 book of the bank was stable at 30bps and 49bps respectively.

**Valuation & View; Expected to deliver RoA/RoE of 1.5%/13% by FY24E**

IIB has reported decent performance during Q2FY22 with momentum on growth is picking up, liability profile shaping up well and margin was stable. We appreciate the management's conservative stance to make accelerated provision for its funded exposure on Vodafone Idea (INR 995 cr). With this, most of the legacy book of the bank has largely provided for. We have a positive view on the stock on the back of strong improvement in its liability profile, re-accelerating credit growth, strong capital ratio (CAR at 17.4%), improving return profile and reasonable valuations (1.5x FY24E P/ABV). Bank is expected to deliver 1.5%/13% RoA/RoE by FY24E. We roll forward our estimates to FY24E and maintain our 'Accumulate' rating on the stock with a revised TP of INR 1,322 (earlier INR 1,095), based on 1.7x FY24E ABV.

## Q2FY22 - Quarterly Performance (Standalone)

(in INR Cr)

Income Statement	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Interest Income	7,650	7,575	7,177	1.0%	6.6%
Interest Expense	3,992	4,011	3,899	-0.5%	2.4%
<b>Net Interest Income</b>	<b>3,658</b>	<b>3,564</b>	<b>3,278</b>	<b>2.7%</b>	<b>11.6%</b>
Non Interest Income	1,837	1,781	1,554	3.2%	18.2%
Total Income	5,496	5,345	4,832	2.8%	13.7%
Employee Costs	602	608	524	-1.1%	14.8%
Other Operating Expenses	1,720	1,606	1,477	7.1%	16.4%
Operating Expenses	2,321	2,214	2,001	4.8%	16.0%
<b>Pre-Provision Profit</b>	<b>3,174</b>	<b>3,131</b>	<b>2,831</b>	<b>1.4%</b>	<b>12.2%</b>
Provisions	1,703	1,844	1,964	-7.6%	-13.3%
Profit Before Tax	1,471	1,287	866	14.3%	69.9%
Tax Expense	358	312	219	14.8%	63.2%
<b>Net Profit</b>	<b>1,114</b>	<b>975</b>	<b>647</b>	<b>14.2%</b>	<b>72.1%</b>
<b>Balance Sheet Analysis</b>					
Deposits	2,75,473	2,67,233	2,27,884	3.1%	20.9%
CASA Deposits	1,15,863	1,12,349	91,846	3.1%	26.1%
CASA (%)	42.0%	42.0%	40.3%	0bps	170bps
Advances	2,20,808	2,10,727	2,01,247	4.8%	9.7%
Total Assets	3,80,492	3,72,996	3,31,996	2.0%	14.6%
Capital Adequacy Ratio (%)	17.37%	17.57%	16.55%	-20bps	82bps
<b>Spread Analysis</b>					
Yield on Avg Advances (%)	11.6%	11.7%	12.0%	-12bps	-43bps
Yield on Avg Interest Earning Assets (%)	8.6%	8.8%	9.5%	-22bps	-94bps
Cost of Funds (%)	4.96%	5.14%	6.4%	-18bps	-148bps
NIM (%)	4.07%	4.1%	4.2%	1bps	-9bps
<b>Asset Quality</b>					
Gross NPA	6,245	6,186	4,532	1.0%	37.8%
Net NPA	1,771	1,760	1,056	0.7%	67.8%
GNPA (%)	2.77%	2.88%	2.21%	-11bps	56bps
NNPA (%)	0.80%	0.84%	0.52%	-4bps	28bps
PCR (%)	71.6%	71.6%	76.7%	8bps	-507bps
<b>Key Ratios</b>					
Cost to Income Ratio (%)	42.2%	41.4%	41.4%	81bps	82bps
C/D Ratio (%)	80.2%	78.9%	88.3%	130bps	-816bps
RoA (%) (Annualised)	1.29%	1.17%	0.85%	12bps	44bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Q2FY22 – Key Concall Highlights

### On Asset quality and collection efficiency front

- Collection efficiency of the bank improved from 96% in June to 98% in September.
- Bank has a stressed telecom exposure of INR 995 cr fund based and INR 2276 cr non fund based. Bank has made 100% provision against its fund based exposure. With the recent relief package announced for telecom sector, management feel default risk to reduce in its non funded exposure.
- Standard contingent provision stands at INR 3,178 cr which will take care of the legacy assets.
- Restructured portfolio: Total loans restructured stands at INR 7,982 cr with Vehicle at INR 3,969 cr (~49%), Secured retail at INR 763 cr (~10%), Unsecured at INR 365 cr (~5%), MFI at INR 907 cr (~11%) and corporate at INR 1,978 cr (~24%).
- Restructured portfolio is performing well with 90% of secured book making their EMI payments while in the unsecured portfolio, collection rate is between 50%-60%.

### On Vehicle Finance

- vehicle finance disbursements saw strong come back during the quarter. The disbursements for the quarter at INR 8,600 cr grew by 62% YoY and 76% QoQ.
- The Bank has caught up on disbursements to pre-Covid levels whereas the industry volumes are still lower indicating continued market share gains across the products.
- Within vehicle categories, disbursements picked up significantly for Commercial Vehicles and Cars. Bank have been cautious on small commercial vehicles and two wheeler growth.
- The vehicle finance restructured book increased from INR 3,089 cr to INR 3,969 cr QoQ.
- Of this restructuring, around 80% comes from the contact intensive MHCV and 3-wheelers segments. Balance 20% is spread across all other vehicle categories.
- Freight availability improving every month and as collections normalise, the disbursements should start reflecting in loan book growth from next quarter.

### On MFI

- Collection efficiency for the quarter was at 94.7%.
- Kerala and few district of West Bengal has some accessibility issue. Collection efficiency excluding Kerala and West Bengal is close to pre-Covid levels.
- The gross slippages during the quarter was INR 1,070 cr. Upgrades and recovery was INR 610 cr. Thus, net slippage stood at INR 460 cr or 1.6% of loans.
- Restructured portfolio stands at INR 907 cr. ~55% of the restructured customers have completed at least 3 loan cycles.

### On Corporate Banking

- Growth was driven by sectors such as Roads, Textiles and NBFC with focus on high rated corporates. Slippages stood at INR 252 cr. All corporate legacy issues has been addressed now.

### Gems and Jewellery

- Bank continues to maintain pristine asset quality and expect stable loan growth in the coming quarters.

### Other Highlights

- Loan growth expected to be in the range of 16-18%.
- Credit cost at 150-180 bps under normal scenario.
- Bank has received board approval for fund raising of INR 2800 cr.

## Key Financials

Profit & Loss Statement (INR Crores)	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	28,783	29,000	31,694	34,630	37,856
Interest Expense	16,724	15,472	16,792	18,312	20,083
<b>Net Interest Income</b>	<b>12,059</b>	<b>13,528</b>	<b>14,903</b>	<b>16,319</b>	<b>17,773</b>
Non interest income	6,951	6,559	7,215	7,936	8,730
Operating income	19,010	20,087	22,118	24,255	26,503
- Employee expense	2,208	2,214	2,435	2,678	2,946
- Other operating expense	6,029	6,146	6,761	7,403	8,070
Operating Expense	8,237	8,360	9,196	10,082	11,016
<b>PPOP</b>	<b>10,773</b>	<b>11,727</b>	<b>12,922</b>	<b>14,173</b>	<b>15,487</b>
Provisions	4,652	7,943	5,957	4,766	4,527
PBT	6,121	3,784	6,965	9,408	10,960
Tax Expense	1,703	948	1,753	2,368	2,759
<b>PAT</b>	<b>4,418</b>	<b>2,837</b>	<b>5,212</b>	<b>7,040</b>	<b>8,202</b>
<b>Diluted EPS (INR)</b>	<b>63.7</b>	<b>36.7</b>	<b>67.4</b>	<b>91.0</b>	<b>106.0</b>

Balance Sheet (INR Crores)	FY20	FY21	FY22E	FY23E	FY24E
<b>Source of Funds</b>					
Share capital	694	773	773	773	773
Reserves & Surplus	34,003	42,592	47,417	54,070	61,885
Networth	34,697	43,365	48,191	54,844	62,659
ESOP	9	0	16	16	16
Borrowings	60,754	51,323	76,209	85,354	95,597
Deposits	202,040	256,205	289,512	332,938	386,208
Other liabilities & provisions	9,558	12,080	14,495	17,395	20,873
<b>Total Equity &amp; Liabilities</b>	<b>307,058</b>	<b>362,973</b>	<b>428,423</b>	<b>490,547</b>	<b>565,353</b>
<b>Uses of Funds</b>					
Cash & bank balance	16,004	56,327	65,000	67,000	70,028
Investments	59,980	69,695	79,174	95,008	114,010
Loans & advances	206,783	212,595	238,107	276,204	325,921
Fixed assets	1,820	1,809	2,081	2,393	2,752
Other assets	22,471	22,546	44,061	49,941	52,643
<b>Total Assets</b>	<b>307,058</b>	<b>362,973</b>	<b>428,423</b>	<b>490,547</b>	<b>565,353</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratio	FY20	FY21	FY22E	FY23E	FY24E
<b>Growth Rates</b>					
Advances (%)	10.9%	2.8%	12.0%	16.0%	18.0%
Deposits (%)	3.7%	26.8%	13.0%	15.0%	16.0%
Total assets (%)	10.5%	18.2%	18.0%	14.5%	15.2%
NII (%)	36.3%	12.2%	10.2%	9.5%	8.9%
Pre-provisioning profit (%)	33.2%	8.9%	10.2%	9.7%	9.3%
PAT (%)	33.8%	-35.8%	83.7%	35.1%	16.5%
<b>B/S Ratios</b>					
Credit/Deposit (%)	102.3%	83.0%	82.2%	83.0%	84.4%
CASA (%)	40.4%	41.7%	41.7%	41.5%	41.7%
Advances/Total assets (%)	67.3%	58.6%	55.6%	56.3%	57.6%
Leverage - Total Assets to Equity	8.8	8.4	8.9	8.9	9.0
<b>Operating efficiency</b>					
Cost/income (%)	43.3%	41.6%	41.6%	41.6%	41.6%
Opex/total assets (%)	2.7%	2.6%	2.2%	2.1%	2.0%
Opex/total interest earning assets	3.1%	2.9%	2.9%	2.8%	2.6%
<b>Profitability</b>					
NIM (%)	4.4%	4.4%	4.4%	4.5%	4.2%
RoA (%)	1.4%	0.8%	1.2%	1.4%	1.5%
RoE (%)	12.7%	6.5%	10.8%	12.8%	13.1%
<b>Asset Quality</b>					
Gross NPA (%)	2.5%	2.7%	2.6%	2.6%	2.5%
Net NPA (%)	0.9%	0.7%	0.8%	0.8%	0.8%
PCR (%)	45.0%	74.2%	70.0%	70.0%	70.0%
Slippage (%)	1.2%	2.2%	1.6%	1.0%	1.0%
Credit cost (%)	2.4%	3.8%	2.6%	1.9%	1.5%
<b>Per Share Data / Valuation</b>					
EPS (INR)	63.7	36.7	67.4	91.0	106.0
BVPS (INR)	500.3	560.7	623.1	709.2	810.2
ABVPS (INR)	463.4	544.2	598.5	681.2	777.5
P/E (x)	17.9	31.2	17.0	12.6	10.8
P/BV (x)	2.3	2.0	1.8	1.6	1.4
<b>P/ABV (x)</b>	<b>2.5</b>	<b>2.1</b>	<b>1.9</b>	<b>1.7</b>	<b>1.5</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880